



Pemberton, H., Freeman, J., & Davies, A. (2018). *Decentring Thatcher's 'neoliberal revolution'*. Paper presented at North Atlantic Conference on British Studies, Annual Meeting 2018, Providence, RI, United States.

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Decentring Thatcher's 'neoliberal revolution'

A paper by Hugh Pemberton, James Freeman and Aled Davies
for the North Atlantic Conference on British Studies

27 October 2018

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A paper delivered to the North Atlantic Conference on British Studies
at Providence, RI, USA, 25-28 October 2018.

WORKING PAPER:

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Abstract

Analyses of the Thatcher revolution, when not focused almost entirely on 'the lady' herself, tend to limit their cast of key actors to those ministers who formed the 'dry' wing of the Cabinet once the party entered government (Thatcher herself, of course, but also Keith Joseph, Howe, Lawson, etc.) along with an acknowledgement that monetarist economists (such as Congdon and Minford) were influential in shaping their thinking, and an apparently obligatory nod to the influence of Enoch Powell.

In this paper, we use recently released papers to analyse an attempted 'Thatcherite' policy revolution via mass personal pensions. This is a policy area that epitomises what came to be called the 'neoliberal' revolution', though one in which the revolutionists found themselves forced to back away from their ambition to sweep away not just the state earnings-related pension but the entire structure of employer-provided pension funds in the UK (because they were seen as reservoirs of market power antithetical to individual freedom as well as ripe for take-over by a socialist government).

Ministers are not the main focus of the analysis. Rather we focus on the Centre for Policy Studies and the No. 10 Policy Unit. In doing so, we confirm the importance of the CPS as source of ideas and reveal both the centrality of the PU as a source of motive power for the 'neoliberal revolution' in Britain and the relative pragmatism of ministers as they backed away from that revolution.

Definitions of 'Thatcherism' and the 'Thatcher revolution' in the enormous and rapidly expanding literature are many and various. Until recently two things united many analyses: a focus on 'the lady' to a greater or lesser degree (often greater);

and a teleological tendency to define the 'Thatcher revolution' in terms of 'actually existing Thatcherism' and work backwards to explore policy roots and forwards to impact and legacy.

That, however, runs the danger of an obsessive focus on the 'Thatcher' persona and style ('Iron Lady', TINA, etc.) and on the 'Thatcher effect', often to the point of producing a distorted perception of 'Thatcher' the politician.¹ There's also the danger of giving too great a sense of coherence and inevitability to complex and often contingent events; and a related tendency to reify an often chaotic and contradictory set of prior policy ideas into a coherent ideology of 'Thatcherism' and, in the process, exaggerate the radicalism of Thatcher, and of Thatcherism as an implemented 'neoliberal project'.

In this paper, we pull the focus away from Thatcher and the usual array of ministerial players in the 'Thatcher revolution' such as Geoffrey Howe, Keith Joseph and Nigel Lawson. Instead, our focus is on the No.10 Policy Unit, and its role in taking up and vigorously promoting radical ideas about pensions reform produced by the Centre of Policy Studies, a right-wing think-tank.

Our conclusion is that Jackson and Saunders (in their otherwise excellent introduction to their edited book (Making Thatcher's Britain) overlooked the

¹ For a selection of such works over the past thirty years see, for example, Dennis Kavanagh and Anthony Seldon, *The Thatcher Effect*, (Oxford: Oxford University Press, 1989); Subroto Roy and John Clarke, *Margaret Thatcher's Revolution: How It Happened and What It Meant*, (London: Continuum, 2005); Peter Jenkins, *Mrs Thatcher's Revolution: The Ending of the Socialist Era*, (London: Pan, 1989); Simon Jenkins, *Thatcher and Sons: A Revolution in Three Acts*, (London: Allen Lane, 2006); Geoffrey Fry, *The Politics of the Thatcher Revolution: An Interpretation of British Politics, 1979-1990*, (Basingstoke: Palgrave Macmillan, 2008); Charles Moore, *Margaret Thatcher: The Authorized Biography. Vol 2. Everything She Wants*, (London: Allen Lane, 2015). See also many more popular works such as Andy McSmith, *No Such Thing as Society*, (London: Constable, 2010). And, of course, countless references in the media.

importance of the PU in their characterisation of ‘Thatcher’s people’ as a ‘network of cheerleaders’ rather than a policy unit on the model of Harold Wilson’s administration, and were wrong in identifying such people as ‘prophets not policy-makers’.² In fact, the PU was a powerful locus of policy-making within the government in the mid-1980s. Nonetheless, we also find that the PU’s attempt to push through a radical, and profoundly unconservative, neoliberal reform project in pensions was ultimately defeated by precisely those normally seen as the political architects of a neoliberal Thatcherite revolution – not least Thatcher herself – as well as by the party’s traditional supporters in big business and the City.

The source of radical ideas on pensions

Let us begin our discussion with the Personal Capital Formation Group of the Centre for Policy Studies – a think tank established by Keith Joseph and often identified as a key source of the neoliberal ideas that underpinned Thatcherism – and its publication in March 1983 of *Personal and Portable Pensions – For All* – a pamphlet written by the business man and founder member of the CPS Nigel Vinson, and the merchant banker Philip Chappell.³

Its starting point was what the CPS termed the ‘grave injustice’ of the so-called ‘early-leaver’ problem, whereby someone leaving a job with a company pension could see their accrued benefits rapidly eroded by inflation: impoverishing in old age the more enterprising worker, and restricting job mobility and individual initiative.

² Ben Jackson and Robert Saunders, ‘Making Thatcher’s Britain’, (Cambridge: Cambridge University Press, 2012), (p. 12).

³ Centre for Policy Studies, *Personal and Portable Pensions for All (April 1983)*, (London: Centre for Policy Studies, 1983). On the history of the CPS, see:

Ben Jackson, ‘The Think Tank Archipelago: Thatcherism and Neo-Liberalism’, in Jackson and Saunders (eds.), *Making Thatcher’s Britain*, 43-61; and Richard Cockett, *Thinking the Unthinkable: Think-Tanks and the Economic Counter-Revolution, 1931-1983* (London: Fontana, 1994).

Vinson and Chappell's solution was to move members of company schemes (then about half the workforce)⁴ into their own personal pension – thus allowing them to move from job to job, and from employment to self-employment without detriment to their retirement income (which would no longer be based on salary at retirement but on the capital value of an individual's invested pension contributions). Such a system would also, they argued, have the added benefit of giving twelve million workers a personal stake in the success of the British economy.

The CPS proposal held attractions for the government in 1983 in that it would

- solve the policy problem of 'early-leavers' from company pensions
- fitted neatly with a traditional Conservative desire to create a 'property owning democracy' in the widest sense.
- And would also address fears that pension funds were ripe for takeover by 'socialists'.⁵

The CPS proposal did not take long to gain traction - being clearly present in proposals advanced in two papers by the Central Policy Review Staff of the Cabinet Office a month later in April 1983. In one, 'Pensions and Individual Choice', the CPRS proposed a 'Portable Occupational Pension' both to solve the early-leaver problem and better connect individuals to their pension investments (in the process deinstitutionalising life and pension funds then administering around £120bn of

⁴ Joan C. Brown and Stephen Small, *Occupational Benefits as Social Security* (London: Policy Studies Institute, 1985), 138; 153.

⁵ Nigel Vinson (a member of the CPS's Personal Capital Formation Group and one of the two authors of the CPS pamphlet on personal portable pensions) described the pension funds as 'a socialist Trojan horse', and in 1983 told Alfred Sherman that 'when pensions are personalised, they are harder to nationalise!' (NV: Nigel Vinson to Geoffrey Howe, 'Background note for Meeting with the Personal Capital Formation Group at 1000 Wednesday 23 June 1983', 15 June 1983; AS: AC 969-972: Nigel Vinson to Alfred Sherman, 'Option of Self Employed Pensions for All', 29 March 1983).

investments and the owners of about half of all shares listed on the London stock exchange).

In its second document, 'Pensions Issues and Policy', the CPRS recommended 'redefining the role of the state' in pensions as a solution to the perceived future public spending burden of the state alternative to company pensions – the State Earnings-Related Pension scheme. A higher basic pension would 'buttress the state's role in preventing poverty in old age', but the state would cease to provide above this minimum, leaving individuals to get supplementation either from company pensions or from an individualised 'Portable Occupational Pension' which bore more than a passing resemblance to the CPS's 'Portable Personal Pension'.

This radical package of proposals was instantly dismissed by Thatcher.

Aware of the devastating political consequences of a previous leaked CPRS policy document in September 1982 which had proposed the privatisation of the NHS, and no doubt mindful of the proximity of a likely general election, she scrawled across the minute covering the first of these two papers

'This paper indicates that its authors have no idea how to tackle a problem of this kind. It recommends policies as far apart as A and Z. In politics you can only at most go from about A - D at a time. ... [It] would be ... absolutely disastrous if it were to go any further. I reject it. – MT.

And on the minute covering the two reports as a package: 'This is a disaster and must not go any further.' She demanded that both reports, already circulated to the Cabinet, be recalled. In June the CRPS, founded by Heath precisely to 'think the unthinkable', was closed down by the PM.

The role and power of the PU in advocating radical approaches to pensions

The CPRS's closure took place in the immediate aftermath of a general election which returned the government to power with a very large majority. Its manifesto for that election was generally much more ambitious than that in 1979 – but on pensions it continued to be very cautious: merely making commitments to continue to uprate state pensions in line with inflation, allow those working beyond state pension age to receive state pension benefits, and do something to protect the rights of early-leavers from company pension schemes.

And, although it was clear that the government was worried about the long-term costs of Barbara Castle's State Earnings Related Pension Scheme, during the campaign Thatcher reiterated an earlier promise that there were no plans to make changes to SERPS. We might also note the strong support she had previously expressed in the late-1970s for company pension schemes, which she had dubbed a sort of 'people's capitalism', an enthusiasm shared by Geoffrey Howe and others in the 1977 party document *The Right Approach to the Economy*.⁶

In the wake of the June 1983 election, however, Thatcher made a very significant change within No. 10 when she appointed the merchant banker John Redwood to run her Policy Unit. With the CPRS abolished, the Policy Unit would now fulfil its 'thinking the unthinkable' function (though unlike the CPRS, with access to all relevant papers and direct access to Thatcher via her PPS, Robin Butler). At the same

⁶ Margaret Thatcher, Speech to the Zurich Economic Society 'The New Renaissance', 14 March 1977; Geoffrey Howe and others, *The Right Approach to the Economy: Outline of an Economic Strategy for the Next Conservative Government*, (London: Conservative Central Office, 1977).

time, it would continue to be the means by which prime ministerial power was brought to bear across Whitehall.⁷

Significantly, Redwood's appointment was reported by the *Sunday Times* as heralding a 'pensions shake-up', and Redwood himself told the DHSS that the PM had asked him 'asked to take a special interest in pensions because of his personal background and the links between pensions and his other responsibilities' for Treasury-related policy and privatisation.⁸

The Policy Unit's agenda on pensions over the next two years was as breathtakingly ambitious as that of the CPRS had been (and as influenced by the CPS). More so, in fact, for its goals were clearer - it sought to sweep away the entire architecture of the present mixed economy of pensions provision over and above the provision of a minimalist basic state pension - and it had greater capacity to turn them into policy.

SERPS was to be abolished and its members funnelled into a new system of personal portable pensions. Likewise, members of company schemes would be incentivised to leave them and take out a personal portable pension; the result would be that such schemes would wither rapidly, in the process destroying the financial power inherent in pension funds.⁹ The aim, therefore, was to move not just to a privatised

⁷ David Willetts, 'The Role of the Prime Minister's Policy Unit', *Public Administration*, 65 (1987). Significantly the PU was based in No. 10 and reported directly to the PM, whereas the CPRS had been based in the Cabinet Office and, in theory at least, worked to support the Cabinet as a whole. It was guaranteed access to all relevant papers, and direct access to Thatcher, by her PPS, Robin Butler (Peter Hennessy, *Whitehall*, (London: Secker & Warburg., 1989), pp. 658-9.)

⁸ Sunday Times, 'Thatcher demands pensions shake-up' by Lionel Barber, 14 August 1983; TNA: BN 13/278, Portable Pensions: Discussion with John Redwood, Note of a meeting, 1 November 1983.

⁹ The funds were highly dependent on a constant stream of new, younger workers – precisely the people who would be most likely to take out a personal pension. Without them, the NAPF warned, funds would 'wither and die'. TNA: BN 147/36, Tom Hayes (Chairman, NAPF) oral evidence to DHSS Public Inquiry into Provision for Retirement, 24 January 1984. See also TNA: BN 147/36, Michael Pilch (CBI) oral evidence to DHSS Public Inquiry into Provision for

system of pension savings but one in which the individual would be sovereign, able to make their own personal decisions about how to invest their pension savings.

Over the next two years Redwood, and his PU colleague David Willetts, pushed this vision consistently, and they pushed it hard. But ultimately their attempt to blow up the existing consensus on the need for a partnership between the state and employers on the provision of an income in old age related to earnings in employment ran into the sands: yes, personal portable pensions were implemented; but company pensions continued, with less incentive to leave them than had been proposed; and SERPS was not abolished.

Explaining the PU's failure

Why, given the PU was operating under the imprimatur of the prime minister (being, as Hennessy put it 'hers to the last paperclip'), did its profoundly revolutionary and neoliberal policy vision end up being reined in?¹⁰

We can find the reason for failure in the institutional resistance encountered both within Whitehall and from external stakeholders; and in Thatcher's ultimate judgement that the PU's vision was politically impossible to implement.

Political resistance from within the government was both departmental and ministerial. At the DHSS, a department widely seen as institutionally supportive of the hard-won consensus forged in the 1970s around earnings related pensions

Retirement, 21 February 1984; and TNA: BN 147/26, Inquiry into Provision for Retirement, Portable Pensions, Evidence Submitted by Legal & General Assurance Society Ltd., January 1984.

provided either by the state or by employers, its secretary of state Norman Fowler was initially sceptical about the CPS's personal pensions idea.¹¹

Fowler seems to have played a canny game, playing on Redwood's fears that a secret programme would leak and create the sort of backlash that the CPRS proposal to privatise the NHS had done in 1982. With No. 10's support, Fowler first held a one-day stakeholder conference on the early-leaver problem and then inaugurated a wider public 'Inquiry into Provision for Retirement' which ran during the first half of 1984 as part of a wider set of consultations on social security reform.

This Inquiry served to reveal a deep well of opposition to the idea of compulsory personal pension provision for those not in a company scheme, and to measures to disincentivise membership of such schemes.

The TUC, for example, found the idea that workers would want to, let alone be capable of, playing the stock market 'laughable'.¹² And the Society of Pensions Consultants warned that those who did would like 'make decisions they might live to regret.'¹³

In their evidence to the Fowler Inquiry, both the CBI and the Life Office's Association (which represented insurance companies on which the government was relying to run compulsory personal pensions) envisaged a three-tier system with the BSP forming the first tier, the second formed either by SERPS or company pensions, and

¹¹ Barry Riley, 'Fowler promises conference on pension scheme early leavers', Financial Times, 9 May 1983.

¹² TNA: BN 147/36, Ken Thomas (TUC) oral evidence to DHSS Public Inquiry into Provision for Retirement, 29 February 1984

¹³ TNA: BN 147/27, Society of Pension Consultants, Precis of Society Evidence to Portable Pension Sub-Group of Fowler Inquiry. 30 January 1984.

a new third tier of top-up individual provision.¹⁴ It was all very well, argued the CBI, for individuals to take risks in that third tier but ‘gambling for higher returns on speculative ventures’ was entirely inappropriate in either of the first two tiers. The CBI thought the Tier 2 partnership between state and occupational schemes was ‘working well’ and unless economic growth in the next three or four decades was ‘very disappointing’ it believed that current commitments were ‘basically sustainable.’¹⁵

Even as the Fowler Inquiry took evidence, however, the PU was seeking to persuade the prime minister of the need for radical action. ‘SERPS has to go’, Willetts told her, or UK public finances in the new century would be under threat.¹⁶ Thatcher found that line persuasive and in October 1984 it was secretly decided to abolish SERPS. That decision was endorsed by an ad-hoc cabinet committee (MISC 111) in February 1985.¹⁷ Though from the PU’s powerful advocacy of radical reform to Thatcher, its implied message that to fail to grasp the nettle would suggest political weakness, and its acknowledgement that, having ‘marched Norman Fowler to the top of the hill’ they should take their chance – it’s plain that Thatcher took some persuading.

¹⁴ TNA: BN 147/26, IPR(PP)7, Inquiry into Provision for Retirement, Sub-Group on Portable Pensions, Written Submissions from Bodies giving Oral Evidence, Note by the Secretary (N Montagu), 2 February 1984

¹⁵ TNA: BN 147/37, DHSS, Public Inquiry into Provision for Retirement, 19 July 1984 – oral evidence given by Kenneth Edwards, CBI Deputy Director-General. One should note the emphasis on ‘current commitments’, however, for the CBI was most concerned at the long-term costs of inflation-proofing occupational pension. In this session of oral evidence. Ross noted that these costs were likely to be ‘substantial’, told the IPR that much would depend on the rate of real economic growth in the future, and expressed concerns at what he thought might be ‘dramatic’ impacts on business costs and efficiency.

¹⁶ TNA: PREM 19/2349, Seminars on Health and Social Security Matters, brief for the Prime Minister on ‘The benefits seminar’ by David Willetts, 28 September 1984. ‘SERPS has to go’ was triple-underlined by Thatcher, and much of the rest of the brief underlined – indicating her clear agreement with the sentiments it expressed.

¹⁷ TNA: CAB 130/1293, MISC111(85) 1st meeting, 6 February 1985.

But if SERPS went, a huge increase in 21st century pauperism would be in prospect unless workers were compelled to take out personal pensions. That, however, would immediately be very expensive because contributions to private and occupational pensions would attract income tax relief. That guaranteed Treasury opposition, and Nigel Lawson duly detonated when he woke up to the scale of the problem in April 1985.¹⁸

Redwood and Willetts, who attended all the ministerial meetings on pensions reform, fought back. A compromise was forged around a phasing the abolition of SERPS and replacing it with compulsory personal pensions, and a green paper was duly published.

The reaction was explosive. For example,

- The representative body for pension funds actively considered refusing to participate, in the end only doing so in order to express its profound opposition to all the key elements of the policy proposals.
- The CBI accepted the need for some trimming of SERPS, but stuck to its guns on the need for a three-tier system.¹⁹
- The TUC warned of “potentially disastrous consequences’ of abolishing SERPS and accused the government of alarmism in its cost projections.
- Major insurers adamantly opposed compulsory personal pensions, as did their representative body the ABI. Even firms such as Legal and General, which had been supportive of personal pensions, were opposed to compulsion –

¹⁸ TNA: PREM 19/1639, N. Lawson to the Prime Minister, Social Security Reviews, 23 April 1985; Nigel Lawson, *The View from No.11: Memoirs of a Tory Radical*, (London: Bantam Press, 1992), p. 589.

¹⁹ Its evidence is summarised in a detailed review of submissions at TNA: BN13/299, HH 1.2, N.L.J. Montagu, Bodies Supporting Modifications for the State Earnings-related Pension Scheme (SERPS) in their Responses to the Green Paper, Annex, 24 September 1985.

because selling administratively expensive personal pensions to low earners would be loss-making.²⁰

Fowler was left dangerously exposed as a result not just of opposition from the unions but from powerful pension funds, large employers and insurance companies that the government had expected would embrace the green paper. He quickly stepped back, putting to MISC 111 a plan to retain SERPS with reduced benefits which it swiftly authorised in mid-October 1985.²¹

From the PU's perspective this was disastrous – for it had always seen SERPS abolition as essential for the success of its pension privatisation project. In a minute to the PM, Redwood expressed his continued belief in its ambitious reform plans, but also a recognition that Fowler's strategy of public consultation had scuppered them. The best Redwood and Willetts could now hope for was to subject SERPS to a slow death.²² A white paper promising £12.5bn of savings by 2030 via lower SERPS benefits, alongside incentives to leave it to take out a personal pension was duly published - and little adjustment to its proposals were evident in the 1986 legislation.

Conclusion

By drawing the focus out from the ministerial centre of British politics in the 1980s, we have confirmed the importance, first noted by Cockett, of think tanks (and the

²⁰ The evidence is summarised in a detailed review of submissions at TNA: BN13/299, HH 1.2, N.L.J. Montagu, Bodies Supporting Modifications for the State Earnings-related Pension Scheme (SERPS) in their Responses to the Green Paper, Annex, 24 September 1985

²¹ TNA: BN 13/308, Draft Speaking Note for MISC 111, n.d.; TNA: CAB 130/1293, Ministerial Group on Social Security, Limited Circulation Annex, MISC 111(85) 8th Meeting Minutes, 15 October 1985.

²² TNA: PREM 19/1640, J. Redwood to the Prime Minister, MISC 111, 14 October 1985; TNA: PREM 19/1640, D. Willetts to the Prime Minister, SERPS, 25 October 1985.

business men who financed them) in providing the core neoliberal policy ideas for pension reform after 1983.

We have also highlighted the centrality of the Policy Unit under Redwood's leadership in developing the CPS's idea and forcing a revolutionary policy proposal onto the government's agenda.

But in the event the PU was ultimately not able to secure the support of key ministerial 'big beasts' in implementing that vision. Whatever its long-term ideological attractions to ministers such as Thatcher and Lawson, they were political pragmatists in a way that Redwood and Willetts were not.

It is, in short, a profound mistake to take the end point of the so-called 'Fowler reforms' in pensions as the starting point in any analysis of a putative 'Thatcherite neoliberal revolution'. Rather we should see the final settlement as a step-back from such a revolution. Certainly, the new institutional structure of pensions embodied elements of a neoliberal agenda (in terms of a new system of personal pensions) but that change was set within a programme of more gradualist reform of the existing mixed-economy landscape of pensions.

END

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